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MEMORANDUM OF UNDERSTANDING

*File  
Geisel*

On February 21, 1976, Secretary of State Kissinger and Foreign Minister Silveira signed a Memorandum of Understanding (MOU) which established a "high level consultative mechanism." The MOU affords a mechanism for consultation on the multitude of issues, large and small, which inevitably arise as our bilateral relationship evolves to meet the new conditions brought about by Brazil's growth to major nation status. The idea was Silveira's and he views the MOU as a way of avoiding "accidents of the road," and containing irritants which might otherwise become serious.

In November 1977, Secretary Vance went to Brazil for his first meeting with the Brazilian Foreign Minister under the MOU. In addition to the Foreign Minister, the Secretary met with President Geisel and other senior officials in discussions covering the full range of bilateral and multilateral issues of mutual concern.

A number of functionally oriented, working level groups were established under the MOU to facilitate consultations and cooperation in several sectors of mutual interest.

-- An Economic Group was envisioned, but never organized. A Trade Sub-Group, however, which predates the MOU and was subsumed under it, has been very active, and last met September 19-20.

-- A Planning Group comprised of members of the Department's Policy Planning Staff and their counterparts from the Foreign Ministry's Secretariat last met in Washington October 6-7.

-- A Science and Technology Group and an Energy Group last met jointly in September 1976 at which time they discussed possible areas of cooperation. No substantive results have come from these groups since their formation, primarily because of the friction generated in our bilateral relations from the nuclear issue. In his letter of February 28, 1978 to Secretary Vance, however, Foreign Minister Silveira agreed to the consolidation of these two groups, and suggested that "the problems of non-nuclear sources of energy could be discussed in a very constructive way by this bilateral group."

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-- In addition, Treasury Secretary Simon and Finance Minister Simonsen established a consultative group to discuss matters in their area of responsibility. It last met in April in Washington.

Both countries generally consider that the exchange of visits by high officials of the two governments also comes within the spirit of the "consultative mechanism."

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COOPERATION FOR CARIBBEAN DEVELOPMENT - THE BRAZILIAN VIEWPOINT

As Brazil has developed its international political and economic strength over the last two decades, it has begun to cultivate more assiduously new political allies and friends. It has aggressively moved into new markets in several areas of the world. One such area is the Caribbean, where Brazil is beginning to build political and trade relations with those Caribbean countries which it believes hold the greatest potential for future political and economic influence in the area. Its strongest initiative thus far has been in Trinidad and Tobago. Brazilian Foreign Minister Silveira visited there last year, and the GOB has since been making supportive gestures toward Dr. Williams' Government.

Brazil has also been exhibiting interest in Surinam, which has substantial ties to the Caribbean even though it is not geographically part of the region. Surinam sees Brazil as a counterweight to Guyana and Venezuela, especially as its relationship with the Netherlands deteriorates. Brazil wants to maintain a stable, friendly Surinam on its northern border and to counter any Cuban political initiatives in the area.

The U.S. interest in Caribbean economic development would appear to coincide with Brazil's new focus on the area. However, Brazil has been reluctant so far to follow up its diplomatic and commercial initiatives with offers of aid involving foreign exchange expenditures. Brazil attended the December Washington Conference on the Caribbean, but only with low-level representation. The GOB expressed interest and support for the development aims agreed to by the Conference but did not offer to be a donor. Brazil's participation -- particularly as a donor, if it could be arranged -- might be welcomed by the Caribbean countries as it is a large country but not a former colonial power -- and not the U.S., with all the hegemonic overtones that implies.

Nevertheless, Brazil may be open to an invitation to join an international donor group for the Caribbean, if it perceives that failure to do so would jeopardize the influence it has sought to gain in the area. The probability would be increased if Brazil's donation could be in the form of technology (e.g. biomass-alcohol conversion) rather than convertible currencies.

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NUCLEAR NONPROLIFERATION

Brazil has not signed the NPT. While it has ratified the Treaty of Tlatelolco, it has declined to waive requirements to bring it into effect until other eligible states, such as Argentina, have adhered. The issue of major concern, however, is the FRG-Brazil agreement to supply Brazil with up to eight light water power reactors, a uranium reprocessing facility, a pilot enrichment facility, and a fuel fabrication plant. The reprocessing and enrichment facilities could give the Brazilians the capability to produce nuclear explosives, and would be a dangerous precedent for transfer of this technology to non-nuclear weapon states.

Our efforts to influence both Germany and Brazil to alter the agreement to exclude the reprocessing and enrichment facilities have been unproductive. Chancellor Schmidt has refused to make any unilateral changes and President Geisel seems determined to lock-in the agreement so that it cannot be changed even after he leaves office. We have, however, moved away from the confrontation that characterized our exchanges on this issue early last year.

A more cooperative tone was set by the the President's letter to Geisel in October which proposed a package consisting of a positive US attitude on the supply of enriched uranium to Brazil and cooperation in thorium technology in return for Brazilian acceptance of full-scope safeguards and a deferral of reprocessing. The Secretary's meeting with Geisel in November did not produce any substantive movement on the issues, but the exchange was without acrimony. Subsequently, Brazil has agreed to possible cooperation in non-nuclear energy although they turned down an offer to cooperate in thorium development.

It is important that we periodically reiterate our concerns on this issue, but we have limited leverage with Brazil and our best hope is that Brazilian worry about Argentina's more advanced reprocessing program, the uncertain economics of reprocessing and the fact that the Becker jet nozzle enrichment process is expensive and untested, will lead to revision of the agreement.

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BRAZIL'S FOREIGN POLICY

Driven by the demands of economic growth and by the problems of its near great power status, Brazil's international posture is inherently ambiguous, and is characterized above all by a search for freedom of action. Brazil intends to achieve the necessary flexibility through the operation of its self-consciously pragmatic foreign policy, eschewing automatic alliances.

Internally, Brazil exhibits characteristics of both the industrialized and under developed worlds. Internationally, also, Brazil seeks both the industrial technology and capital brought by close association with the developed countries and the leverage obtained from ties with the LDCs.

Brazil's desire for freedom from international entanglements derives from the fact that it feels threatened by any arrangement (such as protectionist trade policies or the Nuclear Nonproliferation Treaty) that can be interpreted as "freezing" current international relationships. Brazil's UN Ambassador recommended in 1971 that:

"Brazil should continue to oppose firmly any attempt to limit broader international participation, especially since it is clear that among all the nations of the world -- more than India, Mexico, Argentina, and the United Arab Republic for example -- Brazil would be the most hurt by a policy of maintaining the international status quo."

As these words imply, although it is frequently said that Brazil aspires to great power status only by the year 2000, it is more relevant to say that Brazil already considers itself the one outsider closest to the "charmed circle" of the half dozen most powerful nations in the world.

Brazil's search for a global role is impelled by economic as well as psychological factors. Brazil's growing dependence on foreign inputs and markets, an inevitable consequence of its rapid export-oriented industrial growth, makes Brazil highly sensitive to changes in international economic conditions.

Energy questions will be a major consideration in Brazilian foreign policy for some time to come. Brazil is particularly dependent on petroleum. Seventy percent of its internal transportation is by truck. Eighty-three percent of Brazilian oil consumption is imported, and prospects for greatly increased self sufficiency are poor.

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When the 1973 oil embargo began and the Arabs rumored to be drawing up blacklists, Brazil pulled sharply away from any consumer cooperation on oil, and moved to a decidedly pro-Arab stance. Silveira has now publicly stated that solution of the Middle East question requires withdrawal of Israeli occupation forces from Arab territory and "recognition of the rights of the Palestinians."

Brazil traditionally has been a strong supporter of hemispheric security. This has particularly focused on Communist influence in the hemisphere, and more broadly been reflected in Brazil's participation in peacekeeping forces in the Middle East, Zaire, Cyprus and the Dominican Republic. Detente and multipolarity (the "Nixon Doctrine") have undercut Brazil's anti-communist stance but at the same time opened the door to Brazil's ambitions toward achieving major global influence. Brazil's principal security concerns, however, are still in Latin Ameica. Though Brazil has taken great pains to assuage its neighbors' concerns regarding any expantionist intent, other Latin Americans fear Brazil's new manifestations of power and suspect an arrangement under which Brazil has been delegated a sub-imperial sphere of influence. The 1976 MOU bolstered this fear, as did the development of the Trans-Amazon highway system. Even Brazil's recent initiative for an Amazon Pact of reparian states to oversee the rational development of the Amazon basin is viewed by Brazil's neighbors with veiled suspicion. A real -- and longstanding -- rivalry exists between Brazil and Argentine for influence over Uruguay and Paraguay. Brazil has greatly increased its military relationships with its neighbors. Others look to Brazil as a capitalist alternative to Peru the military's socialist development model.

Foreign trade and investment questions are also assuming a growing importance in Brazilian foreign policy. Brazil's pragmatic approach and its dislike of radical political causes limits its support for confrontation tactics by Latin American caucuses or "Third World" groups in international fora. Brazil supports regional trends only to the extent necessary to avoid appearing to diverge conspicuously from Latin American solidarity. Brazil, will, however, resist protectionism in its own major markets, seeking to exert maximum political pressure to win improved treatment (for example, the countervailing duty issue with the United States), and quietly exploring the possibility of retaliatory steps (for example, in awarding new contacts).

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PROSPECTS FOR POLITICAL EVOLUTION IN BRAZIL

When President Geisel, the fourth military president since the 1964 "Revolution," came into office in 1974, he initiated a process of gradual liberalization of the political system. He has achieved some genuine accomplishments in this direction, including markedly reduced censorship, greater control over internal security forces, and somewhat reduced use of exceptional national security measures. This liberalization program has, however, suffered reversals both because of conservative military reaction and Geisel's own unwillingness to tolerate an effective political opposition.

Thus in April 1977, when the opposition party in the Brazilian Congress blocked a judicial reform package which failed to extend guarantees of habeas corpus to political cases, Geisel suspended the Congress for two weeks and issued a series of political "reforms" which cumulatively rig the congressional and gubernatorial elections scheduled for November 1978 in favor of the pro-government ARENA party. During the following months, several opposition leaders were deprived of their political rights. These acts, combined with a slowdown in economic growth, engendered wide-spread public reaction.

There appears to be a growing consensus in Brazil that political change is desirable, however, and this has been reflected in a lively public discussion of Brazil's political future. The press has been highly vocal and frequently critical of the government. Business leaders have complained of mismanagement of the country's economy and the increasing role of state-owned corporations. The Church, cooperating with lawyer groups and other proponents of civil rights, is the most active and effective critic of the government's human rights performance. A previously passive labor sector is beginning to take a more assertive posture in demanding greater wage increases. University students, after nearly a decade of quiescence, took to the streets last year to protest a broad gamut of issues including educational reforms, human rights, and redemocratization. Now somewhat better organized, the students are likely to renew their activity after the universities resume their sessions in mid-March.

In an effort to respond to these pressures, Geisel and his political advisors are reportedly formulating institutional changes that would return Brazil to a "state of law" before the end of his term by incorporating certain arbitrary and presently extra-constitutional powers into the constitution, probably with some additional restrictions on their use. In addition, the present

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-2-

two-party structure will likely be changed to a multi-party system. Political rights may be restored to a number of persons who were "cassated" (removed from office and barred from participation in politics) for their criticism of the post-1964 regime, but no general political amnesty appears to be in the cards.

This year is an election year in Brazil. Senator Magalhaes Pinto (former Foreign Minister and Governor of Minas Gerais State) is running hard for the ARENA nomination, and an MDB candidate will enter the race in due course. Geisel, however, has indicated his choice for the succession, Major General Figueiredo, Chief of the National Intelligence Service, and his electoral success is virtually assured. Figueiredo has been involved in the current planning process and appears disposed to continue a carefully-controlled movement toward political liberalization. Thus there are hopeful signs that changes during the course of Figueiredo's six-year term will pave the way for a civilian president in 1985.

Opposition elements are, however, likely to regard the limited administration-approved reforms as little more than superficial modifications of a basically authoritarian system, and they will probably continue to press for more sweeping changes and a new constitution. The new president will, therefore, inherit a political situation vastly different from the static docility prevailing when Geisel took office. He will also be subject to countervailing pressures from the military right, which (though apparently diminished in strength) remains obsessed with internal security and is still a force to be reckoned with.

In sum, the odds now favor the formation of a more open and democratic political system over the medium to long-term, but the transition will probably be protracted, is unlikely to be smooth, and may well entail some retrogressions.

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NON-CONVENTIONAL ENERGY TECHNOLOGY COOPERATION WITH BRAZIL

Brazil's economic and political influence as well as its relatively advanced technology position make it an attractive candidate for bilateral cooperation in the development of new energy technologies. A Consultative Group on Energy was established in February 1976, pursuant to a Memorandum of Understanding between the U.S. and Brazil to consult on matters of mutual interest. The first meeting of the Group took place in Brasilia on September 17, of that year. It was agreed at that time that coal conversion, bio-conversion, solar energy and hydrogen would be priority topics to be explored for possible cooperation.

Follow-on actions have been slow and difficult. On the U.S. side, the Department of Energy was hampered by its inability to obtain support for international projects that did not clearly benefit domestic program goals. The Brazilians, on the other hand, were cool to the U.S. initiatives that were offered, reportedly as a sign of displeasure at our non-proliferation policy.

In spite of these difficulties, a U.S. team of experts in the use of hydrogen met with Brazilian scientists and visited Brazilian installations in January 1977. The team submitted a draft scope statement covering possible collaboration in this field, but, in spite of repeated reminders by our Embassy, we have not yet received a Brazilian response.

A visit of Brazilian solar experts was scheduled for early 1977 to inspect U.S. facilities and to prepare a collaborative program. This visit was first delayed by several months and finally postponed indefinitely because of "changed priorities."

There appears to be some improvement in the climate for cooperation in this area. Our Embassy reports renewed expression of interest by Brazilian officials in moving ahead. The Secretary, in his visit to Brazil last November, received a positive response to his suggestion that cooperation in this area merits support from both countries. On the U.S. side, the Department of Energy is reviewing steps that might be taken to support international cooperation on a basis other than that of benefiting domestic technical program objectives.

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-2-

This then appears to be a suitable time for a renewed attempt to establish cooperative links that would carry benefits for both countries. In view of the existence of an agreed upon mechanism for planning and implementing joint work, the fastest approach to achieving this objective would be a reinvigoration of the consultative mechanism accompanied by a U.S. commitment to provide financial support to joint work of special interest to both countries.

(Details of a proposed package for the President to take to Brazil will be included subsequently in consultation with NSC staff.)

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POPULATION

Background

Brazil, with a population of 116 million, is the sixth most populous nation in the world. If the current rate of growth at 2.9% per year continues, the population will double in 25 years.

But Brazil also has one of the highest infant mortality rates in the world: 110 per 1,000 live births. Only six children can expect to survive out of 16 pregnancies.

Because large sections of the country are sparsely inhabited, Brazil's leaders have for many years looked upon population growth as a positive good. But massive rural exodus -- overburdening urban facilities, particularly health facilities -- and declining economic growth rates in recent years caused the Government to reconsider its pro-natalist policy.

At the World Population Conference in Bucharest in 1974, the Brazilian delegation announced that Brazil would implement family planning as a basic human right. In 1975, the Constitution of the newly created State of Rio de Janeiro (which combined the former States of Rio and Guanabara) provides: "The State shall give special attention....to family planning and to the development of an awareness of eugenics in the family."

In July 1977, the Government announced that an official family planning program would begin in 1978 as a component of an expanded maternal-child health care program. The program will include free contraceptives under medically control distribution.

While visiting Mexico in January 1978, President Geisel, at a press conference, expressed the opinion that "a husband and wife should be informed on how to plan their families." This was the first time that a Brazilian President has spoken publicly in favor of birth control and family planning. A further indication of government movement towards support of efforts to moderate Brazil's population growth rate is the February 2 public statement by Planning Minister Reis Velloso in which he acknowledged Brazil's rapid population growth and the

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-2-

rights of a couple to be informed of family planning methods and to have access to the means of family planning.

#### External Assistance

Limited family planning services had been provided by the Brazilian Society for Family Welfare, an affiliate of the International Planned Parenthood Federation (IPPF). Although the U.S. has no bilateral aid program in Brazil, it has provided family planning assistance through such inter-governmental and voluntary agencies as the IPPF, United Nations Fund for Population Activities and the Pathfinder Fund. Although approximately \$4 million were provided by these organizations in 1977, this amounts to only \$.034 per capita per year.

#### United States Policy

NSC Policy identifies Brazil as one of the 13 key countries to be afforded priority attention for population assistance.

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TREATMENT OF U.S. INVESTMENT

There have been persistent reports from U.S. businessmen that the climate for U.S. investment in Brazil is less favorable now than previously. Business complaints have centered in the areas of investment regulation in which an agency of the GOB has been asked by a U.S. firm to provide exemptions from tariffs and the 100% prior deposit on imports, production licenses, or financing. Several companies have claimed discrimination against them as U.S. entities in favor of European and Japanese firms or of discrimination by GOB agencies, but a difference of mood toward U.S. investment may be indicated by the following examples:

--Burlington Industries believes its attempts to replace its bankrupt joint venture partner in a textile mill, Unico de Empresas Brasileiras (UEB), has been blocked by UEB political pressures on key GOB officials, including Finance Minister Simonsen and Industry and Commerce Minister Calmon de Sa.

-- General Electric claims that it lost a major diesel-electric locomotive contract to a Spanish firm due to Spanish Government pressure to decrease Spain's bilateral trade deficit with Brazil.

-- P & H, Inc., believes that its application for exemption from tariffs and the prior deposit for a mining machinery plant has been blocked by the powerful Brazilian manufacturer Villares. P & H says that Villares is using its numerous political connections to keep them out of the mining machinery market.

There seems to be a clear trend in the GOB toward supporting Brazilian-owned firms particularly in industries producing mainly or solely for sale to GOB agencies and enterprises. This trend is reflected in the locomotive procurement decision, as well as in recent decisions by GOB agencies to limit minicomputer production to Brazilian-owned companies. There are also indications that Brazil is increasingly turning to non-U.S. sources of technology. The minicomputer decision excluded U.S. technology in favor of

CONFIDENTIAL

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-2-

German, French and Japanese, and a helicopter manufacturing project was recently approved for the French firm Aerospatiale over two strong U.S. contenders, Bell and Sikorsy.

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**HUMAN RIGHTS**  
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Brazil's domestic human rights performance over the last several months has been marked by slow, hopeful progress, though there are still problems which affect both civil and political liberties. (See Background Paper on political prospects.) Internationally, the Brazilian Government continues to assert that the protection of human rights is an internal matter only, and Brazil is probably the most effective Latin American opponent of an active role for the IAHRG and its UN counterpart.

Sao Paulo, Brazil's largest city, has been a focal point of human rights problems. In February 1976, after three prisoners died, apparently of torture while in custody, Geisel removed the commander of the II Army in Sao Paulo. His replacement, General Dilermando, has made a serious attempt to end physical abuse of prisoners. Cardinal Arns, Brazil's leading human rights exponent, who appeared with the President at the 1977 University of Notre Dame commencement, has spoken well of Dilermando's firm stand on the issue. The Bar and Press Associations have also been effective spokesmen for human rights and political reform. A relatively free press has been the principal forum for criticism of the Brazilian Government by dissident/opposition groups. Recently the electronic media also have carried controversial programming.

Since the beginning of the school term in March 1977, and following the closing of Congress for two weeks in April, student demonstrations have figured in the human rights issue. Initially, the government reacted mildly. As the demonstrations continued, however, the pressures to react became more severe. Some student organizers, arrested in connection with mid-year demonstrations, were reportedly tortured. In September, two thousand or more students were arrested at a demonstration in Sao Paulo. Most were quickly released, but a small number were charged under national security laws.

President Geisel has pressed for a more moderate response to student demonstrations to avoid playing into the hands of the left. In recent months a number of improvements have been reported. Though the Brazilian Government gave a clear priority to economic growth over socio-economic development in the past, there are some indication that it may be reordering its priorities.

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Geisel's orders to stop mistreatment have apparently percolated to the working level and mistreatment of political prisoners is increasingly rare.

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National security cases, however, continue to be tried in military courts, which while noted for their attention to correct procedure, admit of no appeal to the civil judiciary. Strong statements by the Supreme Military Tribunal against mistreatment recently stimulated an Air Force Court in Rio to place on provisional liberty several defendants who alleged they were tortured.

Throughout Brazil the treatment of common criminals from the lower socio-economic groups remains deplorable. In May 1977, two American missionaries, Capuano and Rosebaugh, were arrested in Recife and held for three days before being released without charges following consular intervention. They later described the abominable conditions in which they were held, which are typical of the treatment accorded poor prisoners. The missionaries met with Mrs. Carter during her visit to Recife in June 1977.

Our Embassy protested the treatment the missionaries suffered and the lack of consular notification. Our pressure for follow-up action on a Pernambuco police "white wash" of the affair, resulted indirectly in a GOB promise to all foreign Embassies to facilitate consular notification and access.

On the international level, although Brazil voted to increase IAHRC funding, it has consistently taken an obstructionist attitude toward the IAHRC and actively opposes most U.S. human rights initiatives in the UNGA and other UN bodies. For example, it opposes establishment of UN High Commissioner for Human Rights. We have informed Foreign Minister Silveira that in considering IFI loans we carefully weigh the overall performance of a country in human rights, including its record of cooperation with international organizations. In his September 1977 speech to the UNGA, Silveira repeated GOB themes that human rights are a domestic concern only, and that U.S. criticism is applied discriminatorily as we perceive our national interest.

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NORTH-SOUTH ISSUES

Brazil's public posture on issues between the developing and industrialized countries sometimes conflicts with its privately articulated position and its genuine economic interests. This conflict arises in part from differences within the GOB. The Finance Ministry, reflecting the thinking of Finance Minister Simonsen, believes major benefits can be gained from moving closer to Developed Country positions on trade and financial questions. The Foreign Ministry values Brazil's political leverage as a LDC leader in international fora in order to win economic concession from the DC's. At the same time, it argues that Brazil receives direct benefits as an LDC, e.g. GSP, which it would lose if it abandoned its LDC posture. The Foreign Ministry appears to think that many G-77 positions will never be adopted, thus minimizing the risk of supporting them. Thus far its view has generally prevailed.

Brazil supports LDC initiatives on a common fund although it has not taken any actions that might spur its creation. It has publicly agreed with the G-77 position on independent funding but does not want the managers of a common fund to exert control over such established agreements as the International Coffee Agreement. It has a strong interest in agreements which will provide market and price stability for its major raw material exports. The GOB recently accepted buffer stocks in the International Sugar Agreement and supports the Mexican proposal to establish a coffee stabilization fund. Brazil does not favor, however, producer cartels in such products as iron ore and bauxite which could reduce demand for Brazilian exports.

Brazil demands special and differential treatment for LDC's within GATT. It is already a major beneficiary of the GSP and is seeking to expand its access under this scheme. Its use of a mix of import restrictions and export subsidies to correct a chronic trade deficit has elicited complaints from the international trade community. In addition, Brazil argued forcefully and successfully in the MTN for the establishment of a special "Framework Group" which will consider GATT reform issues including ways to enhance

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-2-

GATT provisions on safeguards for developing countries for balance of payments and development purposes, reciprocity between DC's and LDC's, and a legal basis for LDC special treatment. Brazil has not been an active opponent of G-77 demands for immediate and generalized debt relief. Brazil plays a leading role in the UNCTAD exercise to develop an international code of conduct on transfer of technology. It has strongly pushed the G-77 position that the code be legally binding.

While Brazil believes that the economic demands and proposals of developing countries should be surfaced by G-77 through UNCTAD and the UNGA due to the LDC's strength in these institutions, Brazil has also indicated that it prefers to use the specialized agencies such as the IMF, IBRD and GATT to formulate global policies. It is likely that Brazil will continue to keep a foot in the LDC camp for the foreseeable future, especially since there is nothing in the present international economic system that forces Brazil to foresake LDC benefits while seeking Developed Country status.

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